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ABSTRACT

This monograph presents a history of developments in major student financial aid programs over the past 20 years. An opening section offers highlights of the topic. The article goes on to look at types of student aid, categorized as grants, loans, and work study. An examination of the effects of inflation shows that even taking into account inflation's effect, there has been major growth in the amount of grants and loans made in the past 20 years. Also reviewed are the major acts of legislation establishing the Pell and Stafford programs in the 1970s. Using data from two recent surveys, information on individual awards is also presented. Other information provided by higher education institutions themselves on student aid is reviewed. A final section looks closely at the guaranteed student loans offered by the federal government and discusses the limitations of this program in light of rising default rates. A conclusion reviews the implications of the information noting that expenditures for student aid will probably grow rapidly in the future and that the continued reliance on borrowing for higher education appears to represent a break from past attitudes about the balancing of individual, familial, and societal benefits from higher education. Six information resources and 12 references are cited. (JB)

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Charles J. Andersen

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Division of Policy Analysis and Research
American Council on Education, Washington, D.C.

Student Financial Aid:
The Growth of Academic Credit's Other Meaning

Charles J. Andersen

Student financial aid is a crucial element for every institution of higher education today. Last year, student aid totaled approximately $30 billion, a figure that included funds from federal, state, and local governments and from the institutions themselves. Sixty-five percent of the undergraduates on independent college campuses, and 36 percent of those at public colleges received some sort of financial aid, be it a grant, a loan, or a work-study award. The total awarded or borrowed equals about one-fifth of higher education's total current funds expenditures.

The very size of the enterprise, its decentralized nature, and the changes in some of the rules governing the distribution of financial aid tend to make any account of the recent history of the topic difficult.

This brief concentrates on identifying major programs, their funding and interrelationships as they have developed over the past twenty years.

HIGHLIGHTS

- In the 1991-92 academic year, student financial aid totaled approximately $30 billion. Of this, $21.6 billion (74 percent) came from federal programs, $1.9 billion (6 percent) through state governments, and $6.0 billion (20 percent) from institutional and other funds.
- Nearly $15 billion (50 percent) of the 1991-92 aid was in the form of federally guaranteed loans; $13.8 billion (47 percent) took the form of grants from federal, state, and institutional sources; and $.8 billion (3 percent) was from the federal College Work-study program.
- The constant 1990 dollar value of all student aid *grants*—as distinguished from loans or work-study earnings—has increased by 130 percent in the last twenty years. In 1970-71, grants—federal, state, and institutional—totaled $5.7 billion; in 1989-90 they totaled $13 billion.
- In the same twenty-year period, the constant dollar value of annual *borrowing* through federal student loan programs has increased by 230 percent.
- Twenty years ago, more student aid was extended in the form of grants than in loans; today the reverse is true.
- Public institutions report that student aid expenditures grew from $1.7 billion in 1970-71 to $2.5 in 1989-90, an increase of 41 percent in constant 1990 dollars.
- Independent institutions report that student aid expenditures more than doubled between 1970 and 1990, increasing from $1.9 billion to $4.4 billion in constant 1990 dollars.
- Institutional expenditures for student aid will probably continue recent patterns, increasing at a more rapid rate than the average tuition and fee charges.
- Borrowing for college will increase, both in the number of borrowers and in the size of their loans.
- Greater reliance on borrowing for student aid may limit the participation of minorities and students from low income families who are reluctant to take out loans.

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The Setting

Student financial aid totaled about $30 billion in the 1991-92 academic year. That is nearly one-fifth of the $150 billion that was spent by higher education that year for its current operations.

The exact amount of student aid is not known—or knowable—because its provenance and distribution are extremely decentralized. There are thousands of sources of support aiding at least 5.5 million students. Furthermore, existing reporting mechanisms are more akin to fiscal monitoring systems that focus on accounting for funds in specific programs than to comprehensive procedures that describe, review, and evaluate the distribution of student aid among student categories and the various sectors of higher education.

Types of Student Aid

In recent years student aid has been classified into three general types: grants, loans, and work-study. Data from the College Entrance Examination Board (The College Board) show that the total amount of student aid has grown significantly in the twenty-year period 1970 through 1992 (The College Board, 1984, 1992) (figure 1).

- Grants grew eightfold over this 20-year period, from less than $2 billion in fiscal year (FY) 1971 to $13.8 billion in FY 1992.
- Loan volume has grown from $1.3 billion in FY 1971 to nearly $15 billion in FY 1992—an elevenfold increase.
- The federal work-study program has grown much more slowly than loans and grants, and it accounts for a small portion of all recorded student aid. From one-quarter billion dollars in 1970-71, the program has grown to a little more than three-quarters of a billion dollars in FY 1992. These figures describe only the federally-sponsored College Work-study program and include the funds required to be contributed by participating institutions. Not included are the earnings of students employed in campus jobs but *not* participating in the federal program. No national surveys monitor such financial aid.

Effects of Inflation

When the effect of inflation is removed from these data by converting current dollar figures into constant dollars using the Current Price Index (CPI) as a deflator, the changes are not as dramatic, but they still show major growth in the amount of grants and loans (figure 2).

- Grants, in terms of 1990 dollars, increased by 130 percent between 1970-71 and 1991-92.
- The amount borrowed through student loan programs increased by 230 percent.
- The college work-study program was at essentially the same level in 1991-92 as it had been 20 years earlier.

Federal Legislation in the 1970s

The establishment of Basic Educational Opportunity Grants (later renamed Pell Grants) in the early 1970s gave a big boost to the availability of grants for students from low income families. The passage of the Middle Income Student Assistance Act (MISAA) in the late 1970s permitted students from middle income families to have greater access to federal student aid programs, including the relatively low-interest Guaranteed Student Loans (GSLs, later renamed Stafford Loans). The loans were made widely available through banks that were, in turn, assured they would suffer no losses on such loans because government agencies—state or federal—would guarantee full repayment, even if the student borrower defaulted. Largely because of these changes in federal programs, grants showed a marked jump in the mid-1970s, as did loans in the late 1970s and early 1980s.

This increase in borrowing meant that, beginning in the early 1980s, more student aid has been borrowed each year than has been awarded in the form of grants (figure 3).

Individual Awards

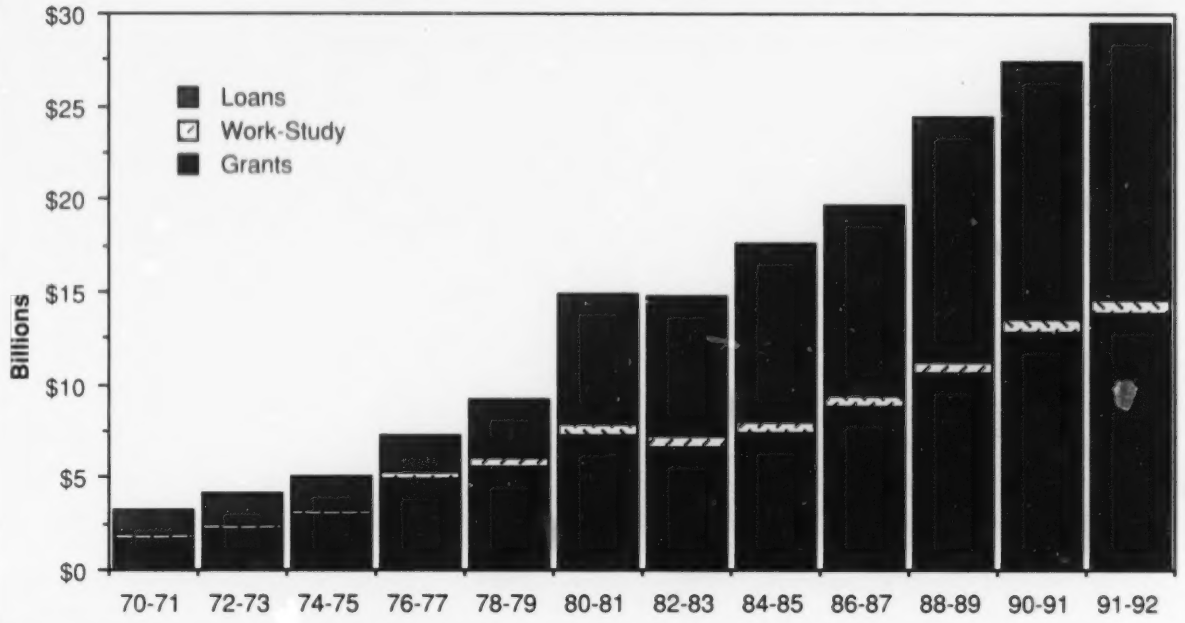
Formerly, there was no regular, national, consistent survey or monitoring program for determining the number and average size of all student assistance. The U.S. Department of Education recently has conducted two large-scale surveys concerning student aid. The first, the 1987 National Postsecondary Student Aid Study (NPSAS 86), gathered data from institutions, students, and parents primarily during the 1986-87 academic year. Several reports from that study have been published (NCES, 1988). The second survey, the 1990 National Postsecondary Student Aid Study (NPSAS 89), gathered data from the same types of respondents during the 1989-90 academic year. It was designed somewhat differently from the 1987 survey, so the results are not directly comparable (NCES, 1991).

In its report on the 1987 survey, the National Center for Education Statistics (NCES) indicated that nearly half (46 percent) of undergraduates enrolled in the fall of 1986 received some sort of student aid (NCES, 1988). This figure varied by type of institution. Those that received some sort of financial assistance were —

- 38 percent of undergraduates at public institutions;

Figure 1

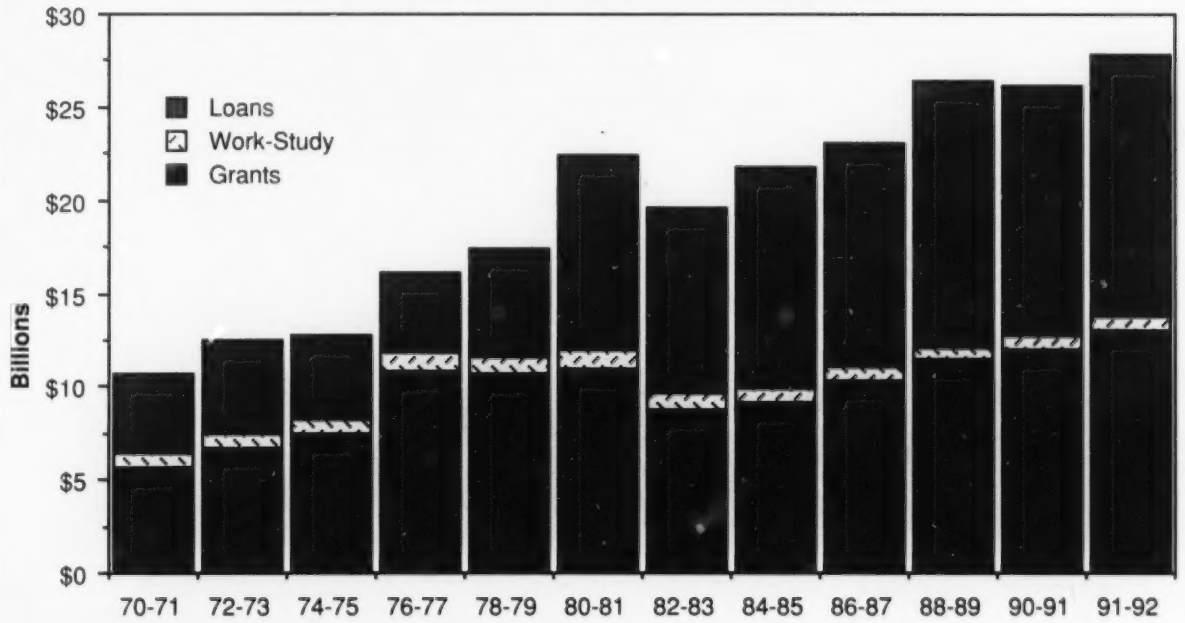
Student Aid, by Type 1970-1991 (in current dolllars)



Source: The College Board, *Trends in Student Aid: 1982 to 1992.*

Figure 2

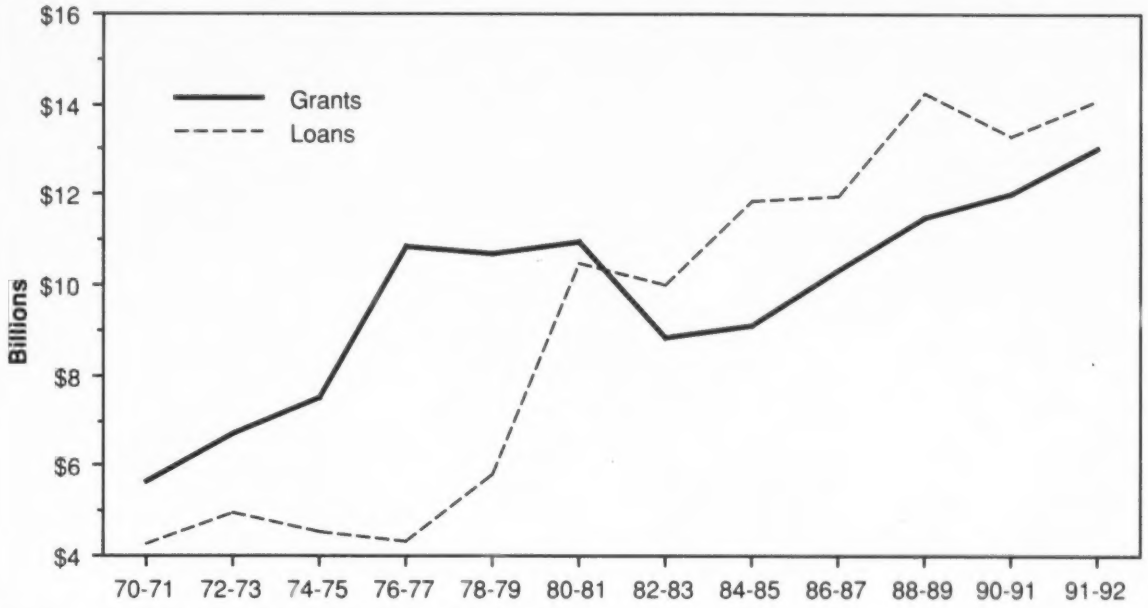
Student Aid, by Type 1970-1991 (in constant dolllars)



Source: The College Board, *Trends in Student Aid: 1982 to 1992.*

Figure 3

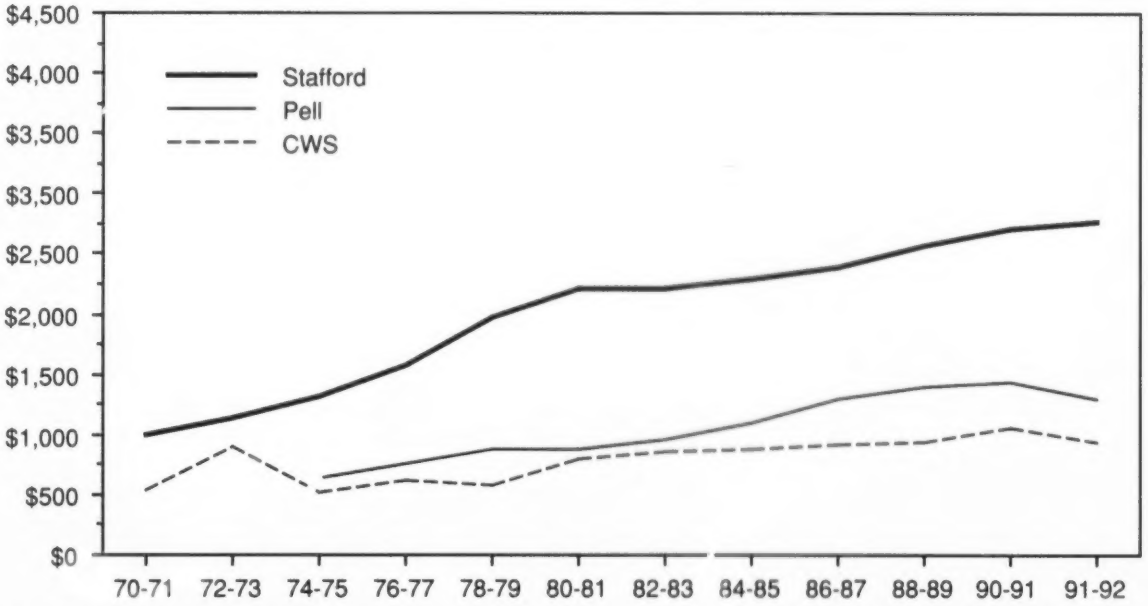
Student Aid Grants and Loans, 1970-1991 (in constant 1990 dolllars)



Source: The College Board, *Trends in Student Aid: 1982 to 1992.*

Figure 4

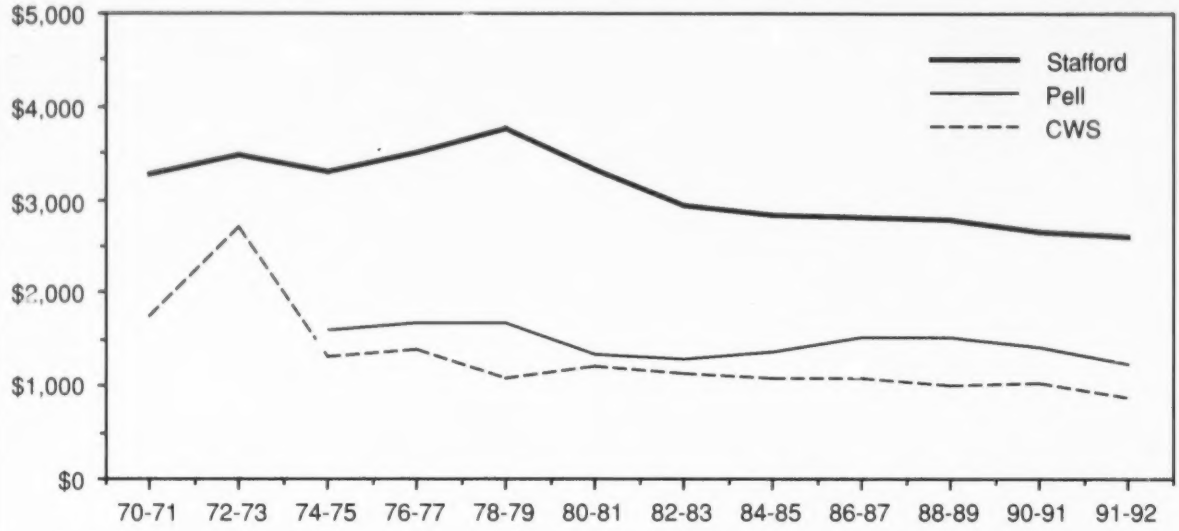
Average Award in Pell, Stafford and Work-study Programs (in current dollars)



Source: The College Board, *Trends in Student Aid: 1982 to 1992.* U.S. Department of Education, Office of Postsecondary Education, *Program Summary Book for 1988-89.*

Figure 5

Average Award in Pell, Stafford and Work-study Programs (in constant 1990 dollars)



Source: The College Board, *Trends in Student Aid: 1982 to 1992.* U.S. Department of Education, Office of Postsecondary Education, *Program Summary Book for 1988-89.*

- 65 percent of undergraduates at independent, non-profit colleges and universities; and
- 84 percent of the undergraduates at private, for-profit institutions.[1]

The average amount received by a full-time, full-year undergraduate was $3,813. However, that average varied significantly by type of institution attended.

- At public institutions, the average was $2,887;
- At independent non-profit colleges and universities, the average was $5,633;
- At private, for-profit institutions, the average was $4,025.

Reports from the 1990 NPSAS survey have thus far focused on aid from programs authorized by Title IV of the Higher Education Act of 1965 as amended. Most prominent among these are the Pell grants, Stafford loans, and so-called "campus-based" programs (College Work-study, Supplementary Educational Opportunity Grants [SEOG], and Perkins Loans). Inasmuch as data for each of these programs is tabulated separately and no average aggregate totals are reported, the 1990 data cannot be easily compared with the earlier data.

It is possible, however, to examine levels of support and numbers of recipients in the individual programs.Stated in current dollars, the average amount of individual earnings/awards/loans in the college work-study, Pell Grant, and Stafford Loan programs has grown significantly over the last 20 years (figure 4).

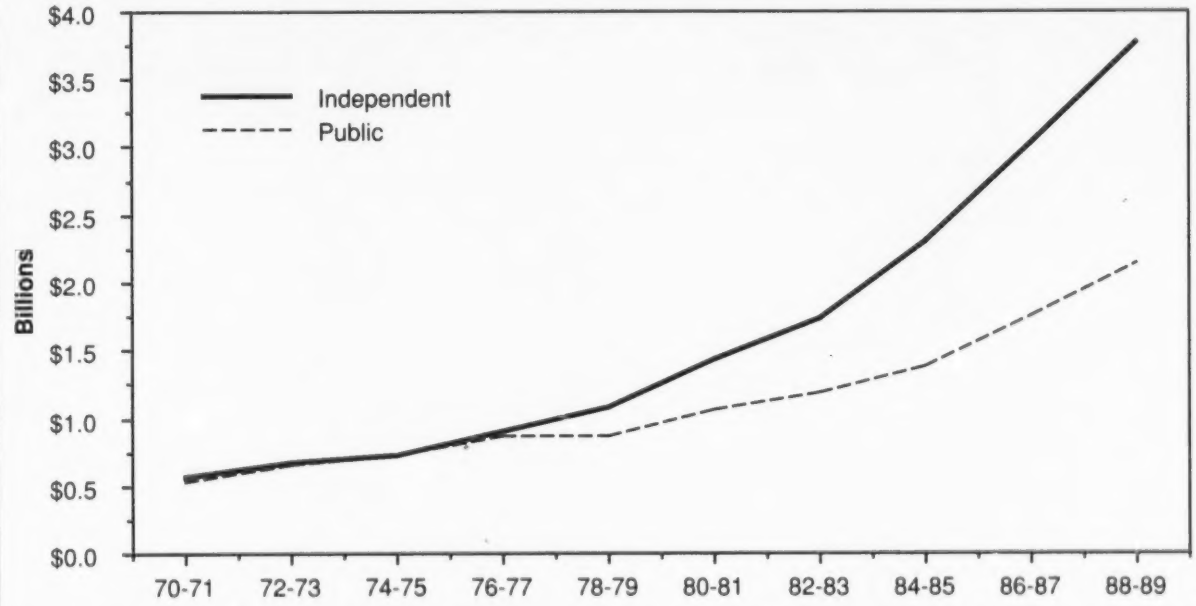
- Federal College Work-study average earnings have increased by 76 percent, rising from $534 to $940.
- Average awards from the Pell program are slightly more than twice their original size, rising from $627 in 1974-75 to $1,302 in 1991-92.
- The amount of the average Stafford loan has grown from $998 to the current $2,761, an increase of 177 percent.

When inflationary effects are removed by converting the average awards to constant 1990 dollars, the change in the actual value of the awards over the same period shows a different pattern. None has the same buying power as it did twenty years ago (figure 5).

- The constant 1990 dollar value of an average Pell grant has dropped by about one-fifth since 1975, the program's first year of full operation, when it was worth about $1,800.
- The constant 1990 dollar value of an average Stafford loan has declined by nearly 20 percent during the last two decades, from about $3,300 in 1970-71 to $2,600 in 1991-92.
- The constant 1990 dollar value of average earnings in the federal College Work-study program has dropped to three-fifths of what it was 20 years ago. In 1970-71, it amounted to about $1,760; in 1991-92 the earnings averaged $1,034.

Figure 6

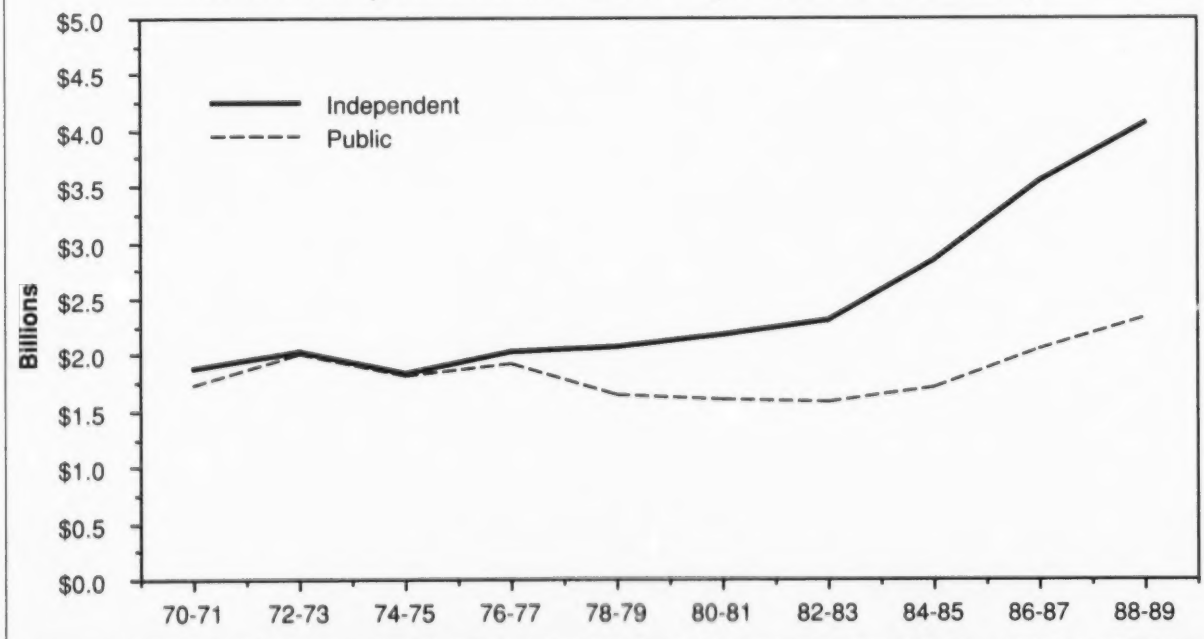
Institutional Expenditures for Student Aid (in current dollars)



Source: National Center for Education Statistics (NCES), *Financial Statistics of Institutions of Higher Education*, FY 1971 through FY 1975; NCES, *Digest of Education Statistics*, 1977-78 through 1992.

Figure 7

Institutional Expenditures for Student Aid (in constant 1990 dollars)



Source: National Center for Education Statistics (NCES), *Financial Statistics of Institutions of Higher Education*, FY 1971 through FY 1975; NCES, *Digest of Education Statistics*, 1977-78 through 1992.

Institutional Data

Another source of data concerning student financial aid is available from the U. S. Department of Education through its institutional data gathering systems. Each year the Department queries institutions about their revenues and expenditures and subsequently publishes summary data that include figures for scholarships and fellowships. (It must be noted that the expenditure data do not provide any information about loans or work-study activity.)

Expenditures for scholarships and fellowships have grown significantly in the last 20 years, from $1.1 billion to $6.7 billion (figure 6).[2]

- Expenditures in current dollars for student aid at *public* institutions in 1989-90 were $2.4 billion, four and one-half times their 1970-71 level of $.5 billion.
- Expenditures in current dollars for student aid at *independent* institutions in 1989-90 were $4.3 billion, seven times their 1970-71 level of $.6 billion.

When the effect of inflation is removed by converting the expenditures to constant 1990 dollars, the overall growth is not as dramatic (figure 7). From $3.6 billion in 1970-71, expenditures for student aid increased to $6.8 billion in 1989-90, not quite doubling in two decades.

- From FY 1971 to FY 1990, student aid expenditures at public institutions grew by 41 percent, from $1.7 billion to $2.5 billion.
- During the same period, student aid expenditures at independent institutions more than doubled, from $1.9 billion to $4.4 billion.

Changes in overall full-time enrollment have accompanied these expenditure increases and indicate a significant increase in the potential demand for that funding.

- From fall 1970 to fall 1990, full-time enrollment at all institutions grew from 5.8 million to 7.8 million students, an increase of one-third.
  - At public institutions, full-time enrollment increased by 36 percent, growing from 4.2 million to 5.7 million students.
  - At independent institutions, full-time enrollment increased by 29 percent, growing from 1.6 million to 2.1 million students.
- The growth in constant dollar expenditures for student aid in the public sector was 5 percentage points greater than the growth in full-time enrollment during the same 20-year period.
- The growth in constant dollar expenditures for student aid in the independent sector more than doubled during that period, while the full-time enrollment increased by a little less than one-third.

These increases in the amount of student aid available and the number of students enrolled have also been accompanied by increases in the cost of attending postsecondary institutions.

- From 1970-71 to 1989-90, average tuition and fees at public institutions increased by 21 percent in constant 1990 dollars.
- At independent institutions, average tuition and fees increased by 51 percent.

These increases, especially those in the independent sector, helped to fund some of the increase in student aid which in turn required more resources as tuition and fees grew.

As noted previously, national data do not provide means of accurately calculating levels of assistance per aided student. However, very rough estimates of trends in institutional funding of student aid may be calculated by dividing the institutional expenditures for scholarships and fellowships by an estimate of the number of aided students. These average student aid figures, when compared with average student charges (tuition and fees, room and board) for the same years indicate that both public and independent institutions have, in general, been keeping their student aid expenditures in a relatively constant relationshp to their average prices (table 1).[3]

Guaranteed Student Loans

In the past, the Stafford Loan program has done its part in containing the growth of the federal budget by providing billions of dollars to students at a relatively low cost to the federal government. The governmental guarantee makes the money available to the student, and, for a student from a family demonstrating financial need, the government subsidizes a portion of the interest cost. But it is either the student, his family, or both who eventually repay the loan.

In the past ten years, the advantage of this type of program to the government has been eroded as the number of defaults on loans has increased. Since 1975, the "on budget program expenditures" have grown at a faster rate than that of the money borrowed (figure 8).[4]

- In 1975, the federal budget expenditures for the Stafford and Perkins loan programs represented less than one-tenth (9 percent) of the amount borrowed by the students.
- By 1990, the federal budget expenditures for the Stafford and Perkins loan programs represented one-third (35 percent) of the amount borrowed.

Table 1

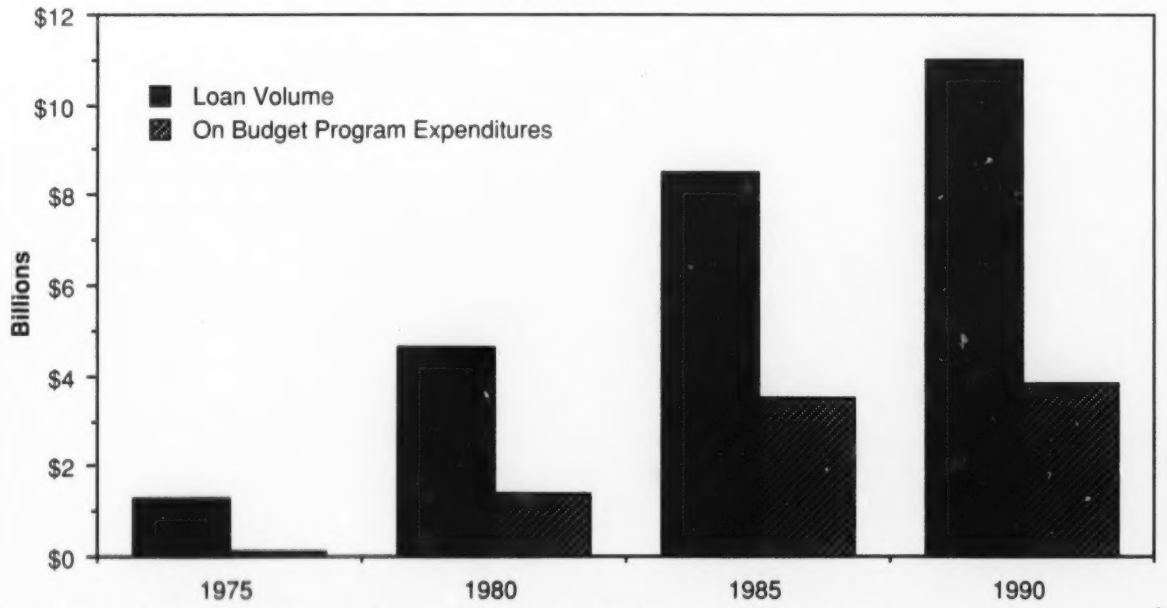
Estimated Institutional Student Aid Expenditures per Aided Student and Average Student Charges, 1970, 1980, 1990

Item	1970-71	1980-81	1990-91
	Public Institutions		
Estimated number of aided full-time students (in thousands)	1,477	1,821	1,987
Student aid expenditures (in millions)	$528	$1,065	$2,570
Average student aid award	$357	$585	$1,294
Average student charges (tuition, fees, room and board)	$1,287	$2,373	$4,757
Average student aid award as a percentage average student charges	**28%**	**25%**	**27%**
	Private Institutions		
Estimated number of aided full-time students (in thousands)	905	1,046	1,113
Student aid expenditures (in millions)	$570	$1,440	$4,576
Average student aid award	$630	$1,377	$4,110
Average student charges (tuition, fees, room and board)	$2,738	$5,470	$12,910
Average student aid award as a percentage average student charges	**23%**	**25%**	**32%**

Sources: National Center for Education Statistics, *Fall Enrollment in Higher Education, 1970; Financial Statistics of Institutions of Higher Education, 1970-71; Digest of Education Statistics, 1983-84; 1992* prepublication data. *Undergraduate Financing of Postsecondary Education, A Report of the National Postsecondary Student Aid Study.*

Figure 8

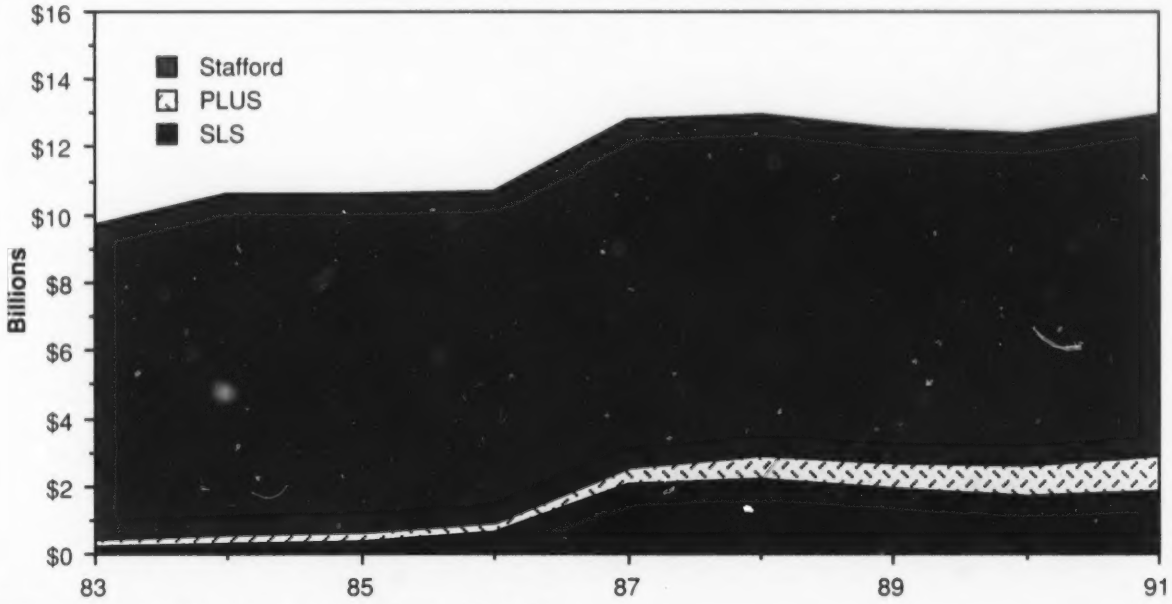
Loan Volume and "On Budget" Program Expenditures (in current dollars)



Source: National Center for Education Statistics, *Federal Support for Education: FY 1980 to 1990.*

Figure 9

Amount Loaned through Major Federal Guaranteed Loan Programs, 1983/84-1991/92 (in constant 1990 dollars)



Source: The College Board, *Trends in Student Aid: 1982 to 1992.*

- The net default rate for Stafford Loans, by far the largest of the federally guaranteed loan programs, dropped from 8.5 percent in fiscal year 1980 to 7.4 percent in 1982, but rose steadily to 10.2 percent in 1988 (OPE, 1990). Recent concerted efforts by the federal government and guarantee agencies are expected to stop this upward swing and reduce the rate in the future.

It should be noted that in addition to Stafford loans, the federal government provides two other major guaranteed loan programs designed to help students. The Supplemental Loans for Students (SLS)[5] program was authorized by the Higher Education Amendments of 1986 and provides unsubsidized guaranteed loans primarily for post-baccalaureate students and independent undergraduates; the Parents Loans for Undergraduate Students (PLUS) was authorized by the Education Amendments of 1980 and provides unsubsidized guaranteed loans for the parents of dependent students (figure 9).

In the late 1980s these two programs grew significantly, so that by FY 1992 an estimated million loans provided $3.1 billion in student aid.

- Since FY 1988, the two programs have accounted for one-fifth of the borrowing in the federal guaranteed student loan programs.
- Since FY 1988, loan volume of the two programs has increased by 14 percent in terms of constant 1990 dollars. This is in contrast to a two percent drop in the loan volume of the Stafford program.

The pattern of change in the *average* value of the two programs' loans (in constant 1990 dollars) follows that of the Stafford loans. They are now slightly smaller than they were in 1983-84, after having experienced a see-sawed decline over the decade. Prior to 1983-84, each program reported fewer than 50,000 borrowers.

- The average constant (1990) dollar PLUS loan in 1983-84 was $3,336; in 1991-92 it was estimated at $3,056.
- The average constant dollar SLS loan in 1983-84 was $3,329; in 1991-92 it was $2,755.

The 1992 amendments to the Higher Education Act included higher annual loan limits and also raised the total amount a student could borrow during his/her academic career. Beginning next summer, a student may borrow up to $23,000 for an undergraduate program; this is one-third more than the current limit. Few will expect the federal guaranteed loan programs to expand by one-third in the next couple of years. Yet, with continuing pressures on the federal budget likely to restrict the size of increases in federal grant programs, it seems likely that significant growth in federally funded student aid programs will be found only in the loan programs.

IMPLICATIONS

Even as tuition and fees continue to increase, it is likely that expenditures for student aid will grow at a more rapid rate in both the public and independent sectors.

- In the public sector, as tuition and fees increase in order to make up for declining state and local appropriations, there will be strong pressures to provide support for disadvantaged students through grants. This type of student financial aid can be targeted on needy students more readily than through the mechanism of low tuitions for the entire student body, a policy that benefits the well-off student as well as the needy one.
- In the independent sector, concerns about maintaining diversity within the student body will result in a continued allocation of unrestricted funds to scholarship aid for needy students. In order to stretch the student aid dollar, institutions may pay more attention to aiding those students who can pay a portion of their tuition bills, instead of providing full support for a more limited number of students who may be totally reliant on institutional student aid.
- If institutions target student aid at lower middle income students who can bring in some tuition to the institution, opportunities for students from families that have no resources to devote to postsecondary education will be even more limited than they are now.
- Fund-raising specifically for student aid purposes will probably increase, as will approaches to foundations and corporations to obtain support specifically for student aid programs.

Borrowing for college will continue to grow, both in the size of loans and the number of students who undertake loans.

- The Education Amendments of 1992 authorized the establishment of a guaranteed loan program operated directly by the institutions themselves.
- The average amount borrowed, in terms of constant dollars, has declined steadily in the last eight years, indicating that there will be considerable "play" in the system before authorities become concerned about the total amount of debt being undertaken.
- A recent study by the U.S. Department of Education indicates that there has been no major worsening of debt burden for recent college graduates (OPBE, 1991).

The increased reliance on borrowing for higher education appears to represent something of a break from the past, involving changing attitudes about the role of family support of youth, responsibility for preparing the individual for full participation in society, and the balancing of individual, familial, and societal benefits from higher education. Those who are concerned about the growing role of borrowing should be reminded that today's student population is much different from that of 60 years ago. It is older, more independent, less involved with full-time study; and it may be less bound by former ideas of financial support.

The decreasing constant dollar value of awards in the federal grants programs, the continuing increase in tuition, the changing characteristics of the student population, and society's continuing demand for postsecondary education are strong indicators that borrowing will continue to grow as a major component of the student aid picture in the immediate future.

ENDNOTES

1 The National Center for Education Statistics' (NCES) *Digest of Education Statistics, 1992* contains several tables of data from NPSAS 1990 (tables 303-308). They indicate little change in the proportion of students who received financial aid: 44 percent of all undergraduates, 36 percent of undergraduates at public institutions, 65 percent of undergraduates at private, nonprofit colleges and universities, and 84 percent of undergraduates at proprietary institutions.

2 These figures do *not* include Pell grants, but they do include some governmental support such as Supplementary Educational Opportunity Grants (SEOGs) and funds from state scholarship programs where the institution selects the grant recipient.

3 In these calculations no attempt has been made to exclude expenditures for graduate student aid. Thus, the student aid awards and their relationship to student charges is somewhat overstated.

4 "On-budget" expenditures are federal expenditures for the loan programs, the bulk of which are consumed by the interest paid to the banks while the student is in school, the subsidized interest differential during the repayment period, and defaults. They do not include the amount borrowed by the student.

5 Prior to the establishment of the Supplemental Loans for Students (SLS) program, loans of a similar purpose and nature were available through the Auxiliary Loans to Assist Students (ALAS) program. That program's expenditures are included in table 9.

RESOURCES

1) The Washington Office of the College Entrance Examination Board (The College Board) in 1983 published *Trends in Student Aid: 1963 to 1983* by Donald A. Gillsepie and Nancy Carlson. That publication pulled together data from various sources and presented a succinct summary of the growth of financial assistance for college students over a twenty-year period, and related it to changes in the value of the dollar, family income, and enrollment. Since the appearance of that initial report, The College Board has published several updates, the most recent being *Trends in Student Aid: 1982 to 1992* . Contact Laura Greene Knapp, The College Board, Suite 404, 1717 Massachusetts Ave., NW, Washington, DC 20036; telephone: (202) 332-7134.

2) The Office of Postsecondary Education of the U. S. Department of Education produces a *Program Summary Book* that represents the official source of information on that office's programs. Included are those authorized by Title IV of the Higher Education Act of 1965 (Pell Grants, "campus-based" aid programs, guaranteed student loans) and other smaller programs. The most recent edition is for 1988-89. Contact the Office of Postsecondary Education, U.S. Department of Education, 400 Maryland Ave., S.W., Mail Stop 5243, Washington, D.C. 20202; telephone: (202) 708-9435.

3) The National Center for Education Statistics (NCES), an activity within the U.S. Department of Education's Office of Educational Research and Information (OERI), gathers institutional data on enrollment, finances, tuition and fees on an annual basis, and publishes summaries of the data in monographs and in its annual *Digest of Education Statistics*. Data tapes are also available, and some data files have been issued on personal computer diskettes and on an Electronic Bulletin Board. For information concerning the latter, call (800) 222-4922. For general information, call (800) 424-1616 or (202) 219-1513 in the metropolitan D.C. area.

4) The National Center for Education Statistics (NCES) also conducted the National Postsecondary Student Aid Study, which surveyed thousands of students in 1987 and 1990. NCES plans to continue such studies periodically. Three reports of the 1987 survey are available: *Undergraduate Financing of Postsecondary Education*, *Graduate Financing of Postsecondary Education*, and *Profile of Undergraduates in American Postsecondary Institutions*. A similar series of reports for the 1990 study are planned. For information, contact: Dennis Carroll, chief, Longitudinal Studies Branch, NCES, 555 New Jersey Ave., N.W. Washington, D.C. 20208; telephone: (202) 219-1774.

5) The National Association of State Scholarship and Grant Programs (NASSGP) publishes an annual report that shows the results of a survey of publicly funded grant programs for the 50 states, the District of Columbia, and Puerto Rico. The report for 1991-92 was prepared by Jerry S. Davis and Deborah Heberle and is available for $5.00 from the Pennsylvania Higher Education Assistance Agency, 660 Boas Street, Towne House, Harrisburg, PA 17102-1398, Attention: Research and Policy Analysis.

6) Many states have associations of independent colleges and universities in addition to the state public systems of higher education. The amount and sophistication of the data that are available from these agencies varies widely. Listings of these agencies are found in the front material of the *Higher Education Directory*, published annually by Higher Education Publications, Inc., 6400 Arlington Blvd., Suite 648, Falls Church, VA 22042; telephone: (703) 532-2300.

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